

Information Services Board Briefing Paper on the Washington State Lottery On-Line Games Proposal

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Description: The Lottery had been expecting to request authority to release a Request for Proposal (RFP) seeking an experienced vendor to provide hardware and software to operate the Lottery's instant and online Lottery games beginning July 1, 2004. However, as part of the solution to the state budget crisis, the Legislature has passed legislation calling for the implementation of The Big Game lottery game. The Legislature also surfaced other options such as five minute Keno, Video Lottery, and Scratch Video for non-profits this year. As a result, the Lottery is pursuing an alternative is based on the economies provided under the current contract, serious resource constraints related to the implementation of new or enhanced game(s) while going through a RFP process and online conversion, and the state of transition of the industry's technology.

Background: Since the start of the Lottery's Daily Game and Lotto game in 1984, the Lottery has contracted with an outside vendor to provide lottery gaming services. The vendor is paid a percentage of the revenues generated from the sale of lottery tickets. The Lottery's current vendor is GTECH Corporation. GTECH gaming software is the basis for Lottery games and the validating of lottery tickets. GTECH also provides approximately 3,600 terminals in retailer locations to process Lottery transactions. GTECH hosts the operation from Olympia.

The Lottery has used all of the extensions provided in the original GTECH contract. GTECH Corporation is currently paid 1.922% of sales, which translates to \$9.6 million annually on \$500 million in sales. The Lottery believes the current contract is economically advantageous. Based on other lotteries' vendor fees, it is estimated by the Lottery that under a new RFP and resulting contract they would pay more, probably 3% to 3.5%. With the implementation of The Big Game, an extension equates to cost savings between \$12 and 18 million over the two year period from 2004 – 2006.

Status: The Lottery has been working with the Department of General Administration's Office of State Procurement (OSP). OSP issued a Request for Information (RFI) on their behalf. The Lottery reviewed the activities of other states and managers from the Lottery have visited states that have most recently selected a new vendor to gather information in critical areas such as retailer services, information services, legal services, and marketing and sales. The Lottery did this in preparation to go out for a RFP. With passage of the Big Game legislation, the Lottery needs to be prepared to begin Big Game ticket sales by September 21, 2002. The Big Game schedule precludes the Lottery from releasing the RFP by June 2002. Releasing the RFP after September causes RFP schedule compression, which adds significant risk to being prepared for conversion in June 2004. The Big Game schedule necessitates the request for a contract extension beyond its current expiration date of June 30, 2004.

RFP Schedule without Big Game:

Release of RFP	June 2002
Proposals Due	September 2002
Announce Apparent Successful Vendor	December 2002
Sign Contract	March 2003
System Ready	March 2004
System Implementation	June 30, 2004

Issues under a contract extension: Major assumptions are that the state will achieve a contract extension without any significant modifications such as vendor fees and level of services.

The risks are:

- The vendor will not agree to the same fees or will want to reduce the level of services.
- Concerns from other vendors who were expecting to bid on a new RFP.

Recommendation: DIS recommends approval of the contract extension.